



COMMITTEE of the WHOLE

CITY COUNCIL

MINUTES

September 24, 2012

5:00 P.M.

COUNCIL MEMBERS PRESENT:

J. Waltman, D. Sterner, R. Corcoran, M. Goodman-Hinnershitz, F. Acosta, S. Marmarou, D. Reed

OTHERS PRESENT:

L. Kelleher, S. Katzenmoyer, C. Younger, C. Snyder, M. Bembenick, D. Goss, C. Zale, D. Cituk, L. Himeback, C. Turtell

The Committee of the Whole meeting was called to order at 5:06 pm by Council President Acosta.

I. Review of 2011 External Audit

Mr. Cituk introduced Linda Himeback and Chris Turtell from Herbein & Co who performed the external audit.

Ms. Himeback stated that she and Mr. Turtell met with the Audit Committee several times to review the external audit results and findings. She stated that she would be highlighting some of the items this evening.

Ms. Himeback stated that the Independent Auditor's Report (pages 1 and 2) gives the City a qualified audit except for accounts receivable issues and water/sewer issues. She stated that these issues are the same as those found in 2010. She stated that the audit summary of necessary adjustments shows the magnitude of these issues.

Ms. Himeback explained that reporting changes have been implemented beginning with 2011. She suggested that the City formally adopt a policy accepting these changes in early 2013.

Mr. Cituk suggested that Ms. Himeback explain what a qualified result is. Ms. Himeback stated that a qualified audit is the highest rating an entity can receive. She stated that the

exceptions are generally software and time sensitive issues. She stated that the outsourcing of water/sewer billing does not remove all responsibility from the City as it should still be concerned with receivables aging and collection rates. She stated that these items greatly affect cash flow.

Mr. Cituk explained that he has been following up with the Water Authority on these issues. He stated that they are working together and that RAWA has been providing the necessary information.

Ms. Goodman-Hinnershitz questioned the number of repeat findings. She noted the need for the City to work to eliminate chronic problems. Ms. Himeback stated that there is a summary of repeat findings. She stated that the summary shows findings back to 2004. She stated that there has been some improvement but that some issues continue.

Mr. Marmarou stated that he has been a member of Council for seven years. He stated that he continues to see the same findings. He questioned the City's ability to make the necessary corrections. Ms. Himeback stated that in order for the City to address many of the findings they need to have consistent, qualified personnel in the finance area. She stated that the personnel changes have caused many of the problems. Mr. Turtell used the example of Mr. Zale, who is the City's Controller but who also acted as Human Resource Manager and Administrative Services Director during these vacancies. He stated that there has been improvement since 2010 and that Mr. Zale and Ms. Fox are making positive progress.

Mr. Marmarou questioned if the external audit addressed the overpayment of pension funds due to the DROP program contributions. Ms. Himeback stated that it uncovered the issue and that the City has made the necessary budget adjustments.

Mr. Marmarou questioned who was responsible for calculating the pension contribution. Mr. Cituk explained that the MMO calculation is prepared jointly between the City's internal auditor, the pension coordinator and the City's actuary. He stated that PFM is also examining this procedure.

Ms. Himeback stated that pages 3 and 4 show snapshots of the City's finances. She explained that column one on page 4 shows the cost of operations to show how much of the City's expenses can be covered through tax revenue. She noted that other funds are also used to support City operations.

Ms. Himeback explained that the approximate \$84 million in Charges for Services (column 3) are significantly higher due to fee increases. The approximate \$34 million in Operating Grants and Contributions is also an increase due to federal stimulus funding received by the City. She stated that the stimulus funding source will not continue. She stated that the City completed many one-time transactions during 2011.

Ms. Himeback called Council's attention to report page 7 which is an overview of the City's general fund. She stated that this statement differs from those on pages 3 and 4 in that this shows a modified accrual system. She stated that the new bond issue was made to terminate an existing swap and pay back an old debt. She stated that this transaction did not result in any cash in-hand. She stated that this report also shows the transfers into the general fund by the Water Authority and Parking Authority and the transfer out for the Self-Insurance Fund.

Mr. Turtell explained that there were one-time transactions of \$1.9 million in 2011 including the repayment of two loans from Greater Berks Development Fund totaling \$2.3 million and the closing of the EIT fund (this was used to cover the due to/due from transactions). He stated that because of these transactions, the City closed 2011 with a fund balance of approximately \$562,000. He stated that without these transactions and the adjustment to the State pension MMO, the City would have closed 2011 with a \$3.2 million deficit. He reiterated that the City continues to use one-time transactions to balance the budget while in a deficit situation. Mr. Zale added that this will become more and more difficult in future years.

Mr. Waltman requested Mr. Turtell review the handout called "Reconciliation of change in fund balance – General Fund." Mr. Turtell explained that these are items that affect the fund balance but are not recurring transactions.

Mr. Waltman stated that water/sewer income is consistent annually. He questioned why this was not considered a general revenue source. Mr. Cituk explained that ordinary income is added first and other income is added later.

Ms. Himeback stated that pages 71 through 76 illustrate the handout provided by Mr. Turtell.

Mr. Waltman stated that PFM has suggested the City increase the EIT and BPT collections in 2012 to increase revenue by the same amount as the Greater Berks payments.

Ms. Himeback stated that page 11 gives an overview of the Water/Sewer Fund. She stated that the net income is due to the rate increases. The water fund closed 2011 with an approximate \$600,000 deficit. The sewer fund closed 2011 with an approximate \$11 million revenue.

Mr. Waltman questioned why the debt service did not appear on this statement. Mr. Cituk explained that the City pays both principal and interest. He stated that for the bond for the WWTP project, the sewer rates must cover the cost of the debts.

Mr. Waltman questioned the external auditor's reliance on outside information. Ms. Himeback explained that the Water Authority supplies a small amount of information but that they caused significant delays. She stated that the audit will be complete just within the September 30 deadline and that this information must be received sooner. Next year RAWA must complete and approve their external audit before the financial information can be used to complete the City's external audit.

Mr. Waltman questioned the issue when Herbein & Co performed both audits. Ms. Himeback stated that this was true at one time and then it was not problematic.

Mr. Waltman questioned Council's approval of the Water Authority budget. Mr. Cituk stated that this was true in the past but now that they have become a more separate entity, the only Water Authority items in the City budget are the transfer and some small pension costs.

Mr. Waltman stated that this is a transparency issue. He noted the need for the Water Authority to provide this information for the City to remain comfortable with RAWA operations.

Ms. Himeback stated that page 81 contains the schedule of federal grants received by the City. She stated that page 82 shows approximately \$12 million in federal sources. She stated that approximately 1/3 of these funds were stimulus funds which will not be recurring.

Ms. Himeback explained that page 88 is the City's "report card" and is the page that State and Federal officials will refer to. She reiterated that the City received a qualified rating and expressed hope that the exceptions would be removed during 2012. She stated that the firm tested those programs listed and that there were no questioned costs.

Mr. Cituk stated that the formal budget presentation will occur at the October 1st Special Council meeting. He thanked Ms. Himeback and Mr. Turtell for their work.

Ms. Goodman-Hinnershitz questioned the process for addressing findings – through the Audit Committee or the Finance Committee. Ms. Reed suggested another joint meeting during the Committee of the Whole on October 8. Ms. Kelleher agreed and stated that the Board of Ethics will have met by then to discuss the necessary amendments to the Code of Ethics to address "Pay to Play" and conflict of interest issues.

Mr. Spencer and Mr. Lloyd arrived at this time.

Mr. Waltman expressed the belief that the City's software operations should be built to automate many accruals. He noted the need for the system and data to be accurate. He noted that the funding ratio of the pensions continues to degrade. He stated that the City has three pension funds, three pension boards, three investment managers, costs, etc. He noted the need to leverage the funds and to have more Council oversight. Ms. Himeback noted the structural issues at the State level.

Mr. Marmarou stated that the State's pension contribution is also affected by insurance issues.

Mr. Waltman noted the need to leverage the investments and costs of the pension funds. Ms. Himeback stated that page 68 shows the actuaries and funding streams of the pension funds.

Mr. Waltman stated that the City's liability volatility is not being properly managed. He noted his fear that the markets are driving the funding requirement and questioned how far they should be driven.

Mr. Cituk stated that he is currently working on a ten year history of the City's MMO.

Ms. Himeback stated that the Management Letter addresses issues in 2012 and beyond. Mr. Turtell stated that items outside the formal findings are addressed as well as upcoming issues. He explained that staff spends significant time reconciling the sewer fund. He stated that this needs to be addressed as the item has been outsourced. He stated that bank reconciliations need to be completed sooner and that items such as very old receivables and small amount receivables need to be cleaned up.

Mr. Waltman suggested cleaning up the items and putting a process in place to prevent the issue from recurring. Mr. Turtell agreed. He stated that with the outsourcing of billing operations it is imperative that the City know its receivable rate and how the rate will affect cash flow.

Ms. Snyder stated that the collection rate is also a big issue.

Mr. Turtell stated that payroll has recently been outsourced. He noted the need for the Auditor to remain involved in this process through monitoring and reporting. Mr. Cituk explained that he has been working with ADP. He stated that there are several questions which need to be addressed but that there are no major issues.

Mr. Turtell stated that the Section 108 loan to Reading Hospitality (hotel project) is for working capital. He stated that the City is responsible to monitor the spending of the funds and that there is no hotel visible. He stated that the BEDI is for architectural and engineering expenses and these items are documented.

Mr. Turtell noted the need for the City to have a better Capital Improvement Budget process and that the conflict of interest and anti-fraud items need to be addressed.

Ms. Goodman-Hinnershitz questioned if the anti-fraud and conflict of interest items also applied to board, authority and commission members. Mr. Cituk expressed the belief that it does.

Mr. Turtell stated that the City is blessed to have a two person internal audit office. He stated that they would be happy to assist with external audit issues and questions. Mr. Cituk announced that his assistant has resigned effective 9/28.

II. Other Matters

- Water Meters

Ms. Goodman-Hinnershitz noted that she has heard from constituents that they are being charged \$500 for tampering with their meters. She stated that these are not the type of people who would do this and stated that they need legal recourse.

Mr. Acosta stated that he has also heard from constituents on this issue and that he personally called the Water Authority Executive Director. The Executive Director corrected the issue. Mr. Acosta questioned all those who do not reach out and who are paying the fee. He stated that this issue is being addressed unfairly by the Water Authority.

Ms. Goodman-Hinnershitz suggested a meeting with Mr. Miller. She stated that the Water Authority office is not addressing the issue in a friendly manner. She stated that the constituents with whom she spoke are now in collections because of their inability to pay the tampered meter fee.

Mr. Acosta stated that the new Water Authority building is not customer friendly.

Mr. Waltman suggested Mr. Miller and Mr. Setley attend a Committee of the Whole meeting.

Ms. Reed stated that the Water Authority wants to establish a hardship account but treats customers poorly.

Mr. Corcoran stated that the work of the Blighted Property Review Committee has discovered that the Water Authority is not placing liens on properties or judgments against owners with large water delinquencies. He stated that the City and the Authority will not recoup these funds and they are losses. He noted the need to address this issue also.

Ms. Goodman-Hinnershitz stated that she told her constituents to write a letter to the Mayor and copy City Council and their State representatives about the issue. She stated that these are elderly, trust-worthy people.

- Parking Authority

Mr. Corcoran stated that City Council has gotten a black eye in the public view because of downtown parking issues. He stated that Council has not been allowed to be part of the conversation.

Ms. Reed stated that conversation has been attempted but that communication has not been open.

Mr. Acosta requested an update from Ms. Snyder. Ms. Snyder stated that she has not been closely involved in the parking issue. She stated that she could not provide an update.

Mr. Acosta requested an update at the next Committee of the Whole meeting. Ms. Snyder agreed.

Ms. Kelleher distributed copies of letters to two members of the Parking Authority who had been removed – Jack Lantrip and John Darlington. One appointment – Bernardo Carbajal - is known at this time. *Note: the other new appointment is Gary Wegman.*

Ms. Goodman-Hinnershitz stated that the Parking Authority has been reconfigured.

Mr. Waltman suggested an update at the next Committee of the Whole meeting. He suggested that the Administration proceed carefully with parking issues and to include Council in discussions.

Ms. Reed noted the need for continued conversation as two more businesses have recently left downtown.

Ms. Goodman-Hinnershitz suggested that with the involvement of the Managing Director the communication would continue. She suggested that Council be informed of changes in boards, authorities and commissions in writing before changes are made.

Mr. Murin arrived at this time.

III. Agenda Review

Council reviewed this evening's agenda including the following:

- Contract Award for 11th & Pike Playground

Ms. Snyder stated that this contract includes upgrades to the play equipment, ADA requirements, safety surface, picnic tables, etc.

- Ordinance amending the CORE guidelines

Mr. Corcoran questioned his need to abstain from the vote as he is a member of the Reading Berks Association of Realtors. Ms. Kelleher stated that Mr. Corcoran will not have a financial gain from the guidelines. Mr. Younger stated that Mr. Corcoran could abstain but that it was not necessary to do so.

- Ordinance transferring Tax Amnesty funds collected to the Contingency Fund

Mr. Acosta suggested reviewing the program report at the October 8 Committee of the Whole meeting. He suggested that the report be emailed to Council before the meeting for their review.

The Committee of the Whole meeting adjourned at 6:33 pm.

Respectfully Submitted by

Linda A. Kelleher, CMC, City Clerk